

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO. 2011-00425
MILBURN WATER DISTRICT)

ORDER

Pursuant to 807 KAR 5:076, Milburn Water District ("Milburn District") has applied for an adjustment of rates for water service. By this Order, the Commission establishes rates that will produce annual revenues of \$62,876, an increase of 20.08 percent over normalized test-period revenues from rates of \$52,360. For a residential customer who consumes 5,000 gallons of water monthly, his or her monthly bill will increase from \$33.92 to \$40.73, or 20.08 percent.

Milburn District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 147 customers in Carlisle County, Kentucky.¹ Its last general rate adjustment occurred in February 2005.²

On October 26, 2011, Milburn District filed with the Commission its application for an adjustment of its rates for water service. It proposed rates that would reportedly produce additional revenues from water sales of \$10,915, an increase of 20.00 percent over proposed pro forma operating water revenues. For a customer who purchased

¹ *Annual Report of Milburn County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* at 5, 21.

² Case No. 2004-00485, *Application of Milburn County Water District for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Feb. 14, 2005).

5,000 gallons of water monthly, the proposed rates would increase his or her monthly bill from \$33.92 to \$40.73.

On February 1, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and Milburn District's operations during the test period. It found that, based upon Milburn District's test-period operations, Milburn District required total revenues of \$68,480 to meet its reasonable operating expenses and provide for reasonable equity growth. It further found that, to reach this level of revenue, Milburn District required a rate adjustment to generate additional annual revenue of \$12,025 over normalized revenue from rates of \$52,370.³ While noting that Milburn District's proposed rates would produce less than this level of revenue, Commission Staff found that the level of revenue produced would result in a positive net cash flow, allow the utility sufficient revenues to cover its reasonable operating expenses, and provide for equity growth. It recommended approval of the proposed rates.

Milburn District responded to the findings and recommendation contained in Commission Staff's report on February 13, 2012. It stated no objections to those findings and recommendations and further advised that the matter should be submitted to the Commission based upon the existing record. Pursuant to the Commission's Order of November 7, 2012, this matter stands submitted for decision.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

³ During the test period, Milburn District had Other Operating Revenue of \$4,085. When this revenue is combined with recommended revenue from water sales of \$64,395, a total revenue requirement of \$68,640 results.

1. The findings and recommendations contained in Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2010 should be used as the test period to determine the reasonableness of Milburn District's existing and proposed rates.

3. Based upon pro forma test-period operations, Milburn District's pro forma annual revenues are \$56,445.

4. Based upon pro forma test-period operations, Milburn District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$60,263.

5. Given that Milburn District has no outstanding long-term debt, the use of an operating ratio⁴ to determine its total revenue requirement is appropriate.⁵

6. An operating ratio of 0.88 will permit Milburn District to meet its reasonable operating expenses and provide for fair and reasonable equity growth and should be used to determine Milburn District's total revenue requirements.

7. Applying an operating ratio of 0.88 to Milburn District's pro forma total operating expenses of \$60,263 produces a total revenue requirement of \$68,480. After considering Milburn District's interest expense and other income, Milburn District

⁴ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

⁵ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

requires \$64,395 of revenue from water sales, or \$12,025 more than its current rates produce.

8. Milburn District's proposed rates, which are set forth in the Appendix to this Order, will produce revenues from water sales of \$62,876.

9. Milburn District's proposed rates will produce a positive net cash flow, will allow Milburn District sufficient revenues to cover its reasonable operating expenses, and will provide for equity growth.

10. Implementation of these rates is not likely to cause the service that Milburn District renders to the public to suffer.

11. When a utility has requested rates that are less than a regulatory commission determines "would furnish a fair return then, in the absence of some factor which would in the public interest require that larger rates be charged, the rates requested by the utility ought to be allowed."⁶

12. The rates set forth in the Appendix to this Order should be approved for water service that Milburn District renders on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. The findings and recommendations contained in Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates set forth in the Appendix to this Order are approved for water service that Milburn District renders on and after the date of this Order.

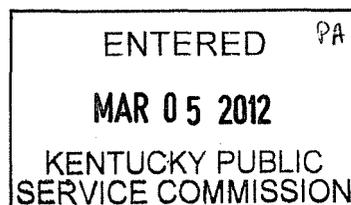
⁶ *Utilities Operating Co. v. King*, 143 So.2d 854, 857-858 (Fla. 1962).

3. Within 20 days of the date of this Order, Milburn District shall file a revised tariff sheet with the Commission setting forth the rates approved in this Order.

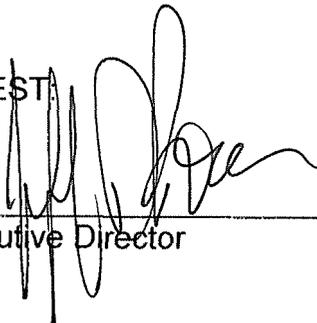
4. The informal conference and hearing scheduled in this matter are cancelled.

5. This matter is closed and shall be removed from the Commission's docket.

By the Commission



ATTEST



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00425 DATED **MAR 05 2012**

The following rates and charges are prescribed for the customers in the area served by Milburn Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

5/8-Inch Meter

First	2,000 Gallons	\$ 18.14	Minimum Bill
Next	3,000 Gallons	7.53	per 1,000 Gallons
Next	5,000 Gallons	6.89	per 1,000 Gallons
Next	10,000 Gallons	6.24	per 1,000 Gallons
Over	20,000 Gallons	5.68	per 1,000 Gallons

Glen Goldsmith
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Milburn Water District
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